



NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

REPORT ON THE FINANCIAL AUDIT 1999-2004

APPENDIX 6: CENTRAL BANK OF NIGERIA

Presented to

The National Stakeholder Working Group

by

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in association with

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The report and all appendices relating to the report are intended for the use of the National Stakeholder Working Group of the NEITI for the purpose of that initiative and are not to be relied upon by other parties.

NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE FINANCIAL AUDIT: REPORT ON FINANCIAL FLOWS

6-0 CENTRAL BANK OF NIGERIA

61.0 Introduction

The Oil and Gas Industry generates almost 90% of the nation's revenue. The CBN warehouses funds that flow from the Oil and Gas sector into the nation's coffers in the Federation Account. However, before the funds flow into the Federation Account they pass through some designated bank accounts, both foreign and local, depending on the currency in which they are paid (Dollars, Pound Sterling, Euro, Naira, etc.).

These designated accounts are operated by (a) NNPC for Crude Sales – JP Morgan Chase, New York; (b) the Accountant General of the Federation for Oil and Gas Taxes – Federal Reserve Bank of New York and also for Local Taxes through the Banking Operations Department (BOD) of CBN.

CBN has records to monitor these accounts, foreign and local. CBN operates these accounts with mandates from both the NNPC and the Accountant General of the Federation for transfers from these accounts into the Federation Account and other specified accounts (e.g. JP Morgan Cash Call Account).

Work in CBN is divided into four parts:

- Template Population
- Cash Call Validation
- JP Morgan-Chase & Bank for International Settlements (BIS) Accounts Reconciliation
- Crude/Gas Sales Accounting as this relates to CBN.

62.1 Template Population

On the request of the National Stakeholders Working Group (NSWG), Hart Group was invited by CBN to help populate their Financial Templates for the purpose of the NEITI Audit.

63.0 Details of Work Done

63.1 The work was carried out in two segments:

- i) confirming that all Crude oil and gas allocated to the FGN as equity were sold, invoiced and all the invoice were paid with proceeds traced to NNPC/CBN JP Morgan account.

Similarly all Domestic Crude was confirmed as invoiced to NNPC and paid for by NNPC. Debtors at 31 December for each of the years were analysed and validated for both export and domestic Crude. However, for the years, 1999 to 2002 NNPC was making payments on account and the debtors for domestic Crude in that period could not be analysed to crude supply streams as set out in the Lifting Profiles.

- ii) confirming that the documentation evidencing the receipt of these fund were validated and traced as swept into the Federation account.

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63.2 The exercise to confirm documentation evidencing the receipt of funds for 2003 and 2004 was carried out by checking all the tax inflows in swift messages to the costing sheets in funds office, BANKOS FGN Treasury Crude Account and eventually into the Federation Account.

- All costing sheets evidencing receipt of proceeds had their values these agreed to the Federation Account values for year 2003 and 2004
- Ensured that all items in the Federation Account are matched with credit advice issued to other government agencies i.e. Accountant General of the Federation office, FIRS or DPR.
- Validated, and reconciled all Equity Crude oil inflows/receipts to J.P Morgan Statements and to the Federation Account.
- Validated and reconciled all Domestic Crude allocations and payments by NNPC to the Federation Account via either J. P. Morgan and or NNPC/CBN local currency Account in CBN for year 2003 and 2004.
- Prepared a statement of inflows and outflow in the JP Morgan Account

For the period 1999 to 2002, we concentrated on populating the templates for respective tax inflows by:

- a) Obtaining the source data (PPT, Royalties, etc. Report) of tax revenue inflows, prepared from the SWIFT Messages and Costing Sheets;
- b) Checking these individual revenue flows into the Analysis of Crude Receipts, PPT, etc. Summary Sheets, prepared by the Funds Office;
- c) Tracing these individual revenue flows into the Bank Statements from the offshore bank account into which the revenue flows are paid.

63.3 For the period 2003 to 2004, we agreed the costing sheet values to the Federation account values.

63.4 In the audit of 2003 and 2004 period, we ensured that:

- i) All the swift messages were entered in costing sheets;
- ii) All the items in the costing sheets were posted into the Federation account.

63.5 We also ensured that all the items in the Federation Account are matched with credit advices issued by CBN to FIRS, NNPC, DPR and/or Accountant General's office.

63.6 From the costing sheet, we were able to check the individual revenue stream to the respective companies that made the payments on a monthly basis as shown below after the filtering process.

63.7 The PPT, Royalty, Gas Flare Penalty etc. Report for 1999 to 2004 could only be found in hard copy, except for a few found in some Funds Office systems, and these were converted into Excel spreadsheet format.

63.8 Filtering of the Excel Report to generate taxes paid by each paying company – all taxes were included here, so further sifting was required to get at those relevant to the Oil and Gas Industry.

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63.9 The Taxes considered are as follows:

- a) PPT
- b) Royalty
- c) Penalties on gas flared
- d) Rentals.

63.10 The Documents used in our work are:

- Incoming SWIFT Register from ICO;
- Incoming SWIFT Register in Funds Office (this registers SWIFT messages meant for the Funds Office);
- Files containing Credit Advices (CBN copies, after other Government Agencies have been advised);
- Files containing Costing Sheets (used for monetizing Tax Revenues);
- Files containing BANKOS Sheets (From IT Dept. Records Costing Sheets details for eventual sweeping of Tax Revenues into the Federation Account);
- Federation Account Components (Monthly Report of all monetized funds that will be swept into the Federation Account). This is from the Banking Operations Department (the Local Currency Dept. of CBN) where the monetized funds end up before they are shared.

Monetization means conversion of foreign currency to Naira.

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64.0 Cash Call Validation

- 64.1 We obtained Schedules on Cash Call Payments for 1999, 2001 and 2004 from the International Remittance Office (IRO) of the Foreign Operation Department of CBN, and 2000, 2002 and 2003 from the Funds Office.
- 64.2 With these schedules, we checked CBN payments of Cash Calls to the NAPIMS Schedules to validate the payments as claimed by NAPIMS to have been made to the Joint Venture Partners. These were found to be in order after extensive reconciliation.
- 64.3 The reconciliation of Cash Call funds sent to JP Morgan (NNPC Cash Call Account) by CBN and what NAPIMS received into the Cash Call Account show the following differences:

Year	Drawn from BIS and JP Morgan Account	Received into NAPIMS JV Cash Call Account	Variance
	US\$ Million	US\$ Million	US\$ Million
1999	2,625	2,625	-
2000	2,267	2,267	-
2001	3,950	3,950	-
2002	2,655	2,407	248 (See below)
2003	3,500	3,426	74 (See below)
2004	3,430	3,417	13 (See below)
Total	18,427	18,092	335

The differences between the amounts paid and received for the year 1999 to 2001 were omissions and errors on CBN schedules. These have been reconciled and cleared by CBN and NNPC.

Differences between the amounts paid and received in year 2002 and 2004 are accounted for by payments in transit across the year ends. These transit items from JP Morgan Account were all received in January the following year as follows:

	US\$ Million
2002	
In transit at 31/12/2002 received by NAPIMS JV Cash Call Dollar Account on 15/01/03	<u>248</u>
2003	
In transit at 31/12/2003 received by NAPIMS JV Cash Call Dollar Account on 14/01/04	322
In transit at 31/12/02	<u>(248)</u>
	<u>74</u>
2004	
In transit at 31/12/2004 received by NAPIMS JV Cash Call Dollar Account on --/1/05	335
In transit at 31/12/03	<u>(322)</u>
	<u>13</u>

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64.0 Weaknesses highlighted by the audit.

Problems encountered in the course of the audit

1. There was difficulties in populating the templates for flows to the Federation Account because all offshore remittances for taxes are booked into the Federation Account through Bankos which is an analysis of Federation Account components. These components are analysed on a monthly basis and booked to the Federation Account.

This system makes it difficult to ensure completeness of the flows. It is suggested that specifically maintaining accounts for each revenue that can be reconciled on a regular basis will solve this problem to a considerable extent. It will ensure that items in each revenue flow can be identified with certainty.

2. The Bankos referred to above contains oil and non oil flows. This intermingling of oil flows and non oil flows makes it difficult to isolate oil flows for audit with certainty
3. The audit showed that flows are not regularly advised to the Accountant General of the Federation and other regulatory agencies.

This makes it difficult for these entities to keep accounts that mirror the entries that they take responsibility for and monitor. This inadequacy of interface between CBN, AGF and the regulatory agencies can be eliminated by

- i) the individual flow account discussed above
- ii) regular issuance of clear advices on each flow.
- iii) CBN sending daily statement on each flow to each entity; and
- iv) Each entity recording its flows with CBN on a weekly basis.

4. Following the population of the templates, there were a number of items where the regulatory agencies issued receipts to the paying agencies but such flows did not reflect on CBN templates.

Similarly there were payments which the companies claim they had made that cannot be traced to CBN. These payments are summarized below.

Keeping separate account for the flows will enhance reconciliation that will eliminate the problem discussed above

5. The monthly FAAC reconciliation is relied upon extensively to confirm flows to the Federation Account for monthly sharing. This reconciliation is too high level to handle routine reconciliation between banker and customer which should be carried out on a weekly and monthly basis. Keeping separate account for each tax/flow type and sending weekly statements on each account will enable the AGF and the regulatory agency mirror and reconcile their account and deemphasize reliance on the FAAC
6. We obtained schedule from CBN on cash calls payments to NNPC NAPIMS which we reconciled NNPC NAPIMS receipts into JP Morgan.
7. There were difficulties in the retrieval of documents from CBN because the records are not properly achieved. The reconciliation difficulties caused by this were extensively addressed in the reconciliation phase.

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8. The few items now outstanding that the CBN and the upstream companies should ultimately reconcile are set out below

\$000	In companies not CBN			In CBN not companies		
	<u>PPT</u>	<u>Royalty</u>	<u>Gas Flare Penalty</u>	<u>PPT</u>	<u>Royalty</u>	<u>Gas Flare Penalty</u>
1999	318	2,169				
2000		321				470
2001						
2002						
2003	565	3,034				
2004		2,385		1,354		

65.0 Bank Reconciliation

Two banks were used by CBN to receive Federation Account funds in the period under review. They are:

1. Bank for International Settlement (BIS), Switzerland;
2. JP Morgan-Chase Bank, New York.

The reconciliations of the above accounts are set out below

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Reconciliation of BIS A/C for Year 1999

	USD	USD
Opening Balance as at 01.01.99		145,926,109
Inflows/Receipts:		
Equity crude	5,446,949,589	
Interest	10,373,182	
Gas Receipts	101,617,568	
Miscellaneous Income	<u>2,040,004,515</u>	
		7,598,944,854
Less Outflows/Payments		
JVCCs	1,600,000,000	
NNPC Priority Projects	325,000,000	
Payments to Fed. A/c & other Govt. ager	<u>5,591,254,508</u>	
		7,516,254,508
End of 1999 closing balance		228,616,455

Reconciliation of BIS A/C for Year 2000

	USD	USD
Opening Balance as at 01.01.2000		228,616,455
Inflows/Receipts:		
Equity crude	9,347,113,452	
Interest	50,293,142	
Gas Receipts	290,829,610	
Miscellaneous Income	<u>6,189,524,427</u>	
		15,877,760,631
Less Outflows/Payments		
JVCCs	2,157,777,778	
NNPC Priority Projects	786,666,667	
Payments to Fed. A/c & other Govt. ager	<u>12,215,370,551</u>	
		15,159,814,996
End of 2000 closing balance		946,562,090

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Reconciliation of BIS A/C for Year 2001

	USD	USD
Opening Balance as at 01.01.2001		946,562,090
Inflows/Receipts:		
Equity crude	8,492,874,426	
Interest	56,619,314	
Gas Receipts	241,298,249	
Miscellaneous Income	<u>13,398,338,770</u>	
		22,189,130,760
Less Outflows/Payments		
JVCCs	3,658,370,000	
NNPC Priority Projects	316,077,778	
Payments to Fed. A/c & other Govt. ager	<u>19,001,356,692</u>	
	19,317,434,469	
		22,975,804,469
End of 2001 closing balance		159,888,380
Rounding Difference		1,950

Reconciliation of BIS A/C for Year 2002

	USD	USD
Opening Balance as at 01.01.2002		159,888,380
Inflows/Receipts:		
Equity crude	2,487,841,768	
Interest	2,589,207	
Gas Receipts	123,878,063	
Domestic crude	-	
Miscellaneous Income	<u>3,211,539,068</u>	
		5,825,848,106
Less Outflows/Payments		
JVCCs	875,010,000	
NNPC Priority Projects	113,320,000	
Payments to Fed. A/c & other Govt. ager	<u>4,938,456,722</u>	
		5,926,786,722
End of 2002 closing balance		58,949,765
Rounding Difference		1,950

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Reconciliation of JP Morgan Chase A/C for Year 2002

	USD	USD
Opening Balance as at 01.07.2002		0
Inflows/Receipts:		
Equity crude	3,038,935,496	
Interest	2,568,080	
Gas Receipts	143,304,573	
Domestic crude	-	
Miscellaneous Income	<u>47,735,765</u>	
		3,232,543,914
Less Outflows/Payments		
JVCCs	1,488,631,298	
Transfer to Federation Account	<u>1,728,912,395</u>	
		3,217,543,693
End of 2002 closing balance		15,000,221

Reconciliation of JP Morgan Chase Account for Year 2003

	USD	USD
Opening Balance as at 1 Jan 03		512,995,195
Inflows/Receipts:		
Equity crude	7,680,386,418	
Interest	2,845,868	
Gas Receipts	259,083,717	
Miscellaneous Income	<u>62,769,893</u>	
		8,005,085,896
Less Outflows/Payments		
JVCs		
December 2002 collection trfd in Jan 2003	248,479,783	
Transfers in Feb. 2003 – Dec 2003	<u>3,177,667,000</u>	
	3,426,146,783	
Federation account		
December 2002 collection trfd in Jan 2003	249,515,091	
Transfer in Feb. 2003 – Dec. 2003	<u>4,195,496,204</u>	
	4,445,011,295	
		7,871,158,078
End of 2003 closing balance		646,923,013

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Reconciliation of JP Morgan Chase Account for Year 2004

	USD	USD
Opening Balance as at 1 Jan 04		646,923,013
Inflows/Receipts:		
Equity crude	11,366,473,523	
Interest	5,518,012	
Gas Receipts	426,139,064	
Domestic crude	2,555,839,423	
Miscellaneous Income	<u>162,660,137</u>	
		14,516,830,159
Less Outflows/Payments		
JVCs		
December 2003 collection trfd in Jan 2004	322,333,000	
Transfers in Feb. 2004 – Dec 2004	<u>3,095,000,000</u>	
	3,417,333,000	
Federation account		
December 2002 collection trfd in Jan 2004	309,590,013	
Transfer in Feb. 2004 – Dec 2004	<u>10,046,880,214</u>	
	10,356,470,227	
		13,773,803,227
End of 2004 closing balance		1,389,949,945
Outflows/Payment made in Jan 2005		
JVCs	335,000,000	
Federation account	<u>1,039,949,945</u>	
		<u>1,374,949,945</u>
Balance at 31 Dec. 04		<u><u>15,000,000</u></u>

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66.0 Conclusion

- All data required were provided for Equity Crude, Taxes and Domestic Crude.
- We were able to reconcile the Cash Call Funding of CBN to that of NAPIMS. Differences arising from this reconciliation are being forwarded to CBN for clearance.

67.0 Recommendations

It is important that a robust Accounting system be put in place for Federation Income Accounting in order to inject transparency into the Federal government financial flows.

The Accountant General of the Federation (AGF), who has the ultimate responsibility for the Consolidated Revenue Fund (CRF), should liaise with the CBN as banker to the Federal Government and the regulatory agencies to institute a process improvement programme for this.

It is therefore suggested that:

- a) Each financial flow should have its own separate bank account so that the regulatory agency concerned with the monitoring of the flow can be held accountable to mirror the accounts in its books on a day to day basis.
- b) Non-oil flows should be correctly distinguished and separated from Oil flows in order to enhance recording, reporting and monitoring.
- c) Some advices to the AGF and the regulatory agencies were found not to have been delivered to them. Their accounting will be, to this extent, incomplete.

As the banker to the AGF, CBN should promptly and regularly forward advices and bank statements that carry full and clear details of the related transactions to all concerned so that they can regularly and promptly update their records, and carry out reconciliation routinely with the CBN.

The FAAC reconciliation is too high level to be useful in enhancing routine accounting and reporting.

- d) The CBN filing system needs to be overhauled to enable easy tracing of Oil and Gas flow documents to the Federation Account.